Retirement Income Planning

Retirement Income Sources

Most financial experts believe you will need approximately 85 percent of your pre-retirement income in retirement in order to maintain your standard of living in retirement. You may need less than 100 percent of your pre-retirement income because some expenses may end at retirement, such as retirement contributions and some taxes like FICA (Social Security/Medicare).

Your retirement income may include one or more of the following sources:

- Pension (CalPERS)
- Social Security
- Personal Savings

In this chapter we'll briefly discuss all three of these possibilities and how they can work together to provide your total retirement income.

CalPERS Pension

Your CalPERS pension is a defined benefit plan. What that means is the amount of the benefit is determined by a formula (see previous chapter), not by how much you've contributed into the plan. Believe it or not, the amount of your contributions has nothing to do with how much your pension will be.

Once you begin receiving your pension, your benefit is guaranteed and payable for life, and you'll receive annual cost of living adjustments beginning in the second calendar year of your retirement.

CalPERS is the administrator of the defined benefit plan and manages the funds, so you don't have to worry about how the funds are invested.

Social Security

Social Security is another possible source of retirement income. This brief introduction to Social Security is based on information from their Web site, *www.ssa.gov*. If you have any questions on your personal situation please contact the Social Security Administration directly.

Social Security is a federally mandated social insurance program. The amount of income you are eligible for is based on the year you were born and the average wages you've earned over your lifetime.

Social Security benefits may also be available to eligible family members. Again, if you have any questions regarding Social Security benefits please contact them directly (there is contact information later in the chapter).

How Do You Qualify for Social Security?

When you work and pay Social Security taxes, called FICA on some pay stubs, you earn Social Security credits. To qualify for benefits, you need at least 40 credits which is approximately ten years of work.

Once you've acquired the minimum 40 credits, you can retire from Social Security as early as early as age 62 with a reduced benefit.

To be eligible for your 100% entitlement from Social Security, you have to be between ages 65 and 67, depending on your year of birth. However, you can receive an increased benefit from Social Security if you work beyond your full retirement age up to age 70.

Social Security Retirement Age

This chart shows when you would reach the full retirement age to receive 100% of your entitlement from Social Security. It also shows the percentage you would receive if you retired early from Social Security at age 62.

Social Security Retirement Age

Year of Birth	Full Retirement Age	Age 62 Reduced Benefits
1938	65 and 2 months	79.20%
1939	65 and 4 months	78.30%
1940	65 and 6 months	77.50%
1941	65 and 8 months	76.70%
1942	65 and 10 months	75.80%
1943 - 1954	66	75.00%
1955	66 and 2 months	74.20%
1956	66 and 4 months	73.30%
1957	66 and 6 months	72.50%
1958	66 and 8 months	71.70%
1959	66 and 10 months	70.80%
1960 and later	67	70.00%

Note: **People who were born January 1 of any year should refer to the previous year.**

If your birth date is prior to 1938, then your full retirement age is 65. The age for full retirement is gradually increasing so that everyone born in 1960 or later will have to be age 67 to receive full Social Security benefits.

For example, a person born is 1955 would have to be 66 years and 2 months old for their full benefit, and at age 62 would get 74.20% of their full benefit.

Social Security Contact Information

If you pay Social Security taxes, you'll begin receiving annual statements at age 25, usually three months prior to your birthday. Review your statement carefully to ensure that your wages are being correctly reported to Social Security. If you find a discrepancy, contact the Social Security Administration to have it resolved.

For assistance and additional information, you can contact Social Security in the following ways:
- Online at www.ssa.gov
- Call toll free (800) 772-1213,
  TTY for hearing and speech impaired (800) 325-0778
- Visit your local Social Security office.

Personal Savings

Your CalPERS pension and Social Security (if you qualify) may not be enough to support your desired lifestyle in retirement. If that's the case you can supplement your retirement income with personal savings.

Personal savings can come from a variety of sources, such as employer sponsored retirement savings plans such as a 401(k), a 457 or a 403(b) plan, Individual Retirement Accounts (both standard IRA and Roth IRA), personal savings accounts, and even less common sources such as stocks, bonds and investment properties.

Consider consulting a qualified financial planner for more information on these possible retirement income sources and how they can work together with your pension to provide your total retirement income.

Defined Contribution Plans

Defined contribution plans like a 401(k), 457 or 403(b) plan can be a very important component of your retirement savings. The key elements of a defined contribution plan are:
- Your retirement benefit is determined by your contributions into the plan and the investment earnings (or losses) they produce.
- There is no guaranteed benefit.
- You decide how much to contribute into the plan and how the funds are invested. There are, however, limitations to the amount you may contribute annually.

State of California employees have 401(k) and 457 plans available through the State's Savings Plus program. School and public agency employees may participate in the CalPERS 457 plan if their employer contracts with CalPERS for that benefit. They may have other plans available through their employers as well.

Advantages of Defined Contribution Plans

There are several advantages to a defined contribution plan:

- You determine how much to contribute into the plan, the contributions are not set by law as they are with a defined benefit plan.
- Defined contribution plans usually provide a variety of investment choices that allow you to diversify and spread your investment risk over several asset classes.
- You may be able to withdraw money from the plan for financial emergencies.
- If you have an employer-sponsored plan, your contributions are made pre-tax, which lowers your taxable income so you save on income taxes. The money you contribute plus the investment earnings grow tax deferred until you withdraw your funds in retirement. The money you withdraw in retirement will be taxed as ordinary income based on your tax bracket at that time.

Example of Tax Savings

Example of Tax Savings

	Member A	Member B
Monthly Salary	$2,500.00	$2,500.00
Before - Tax	$ 0.00	$ 100.00
Taxable	$2,500.00	$2,400.00
Taxes Paid	$ 400.00	$ 365.00
Net Pay	$2,100.00	$2,035.00
After tax	$ 100.00	$ 0.00
Take Home	$2,000.00	$2,035.00

Both members are saving $100, but member B's take-home pay is $35 more than Member A's because of the reduced taxes. In effect, it only costs Member B $65 to invest $100 in a tax-deferred retirement savings plan ($100-$35 = $65).

Benefits of Compounding

Benefits of Compounding

Assumes a 7% Annual Return

	Member A	Member B
Begins Investing	30	45
Retirement Age	65	65
Invests for 15 Years (age 30 - 45)	$5,000	$0
Invests for 20 Years (age 45 - 65)	$0	$7,500
Total Invested	$75,000	$150,000
Total Invested + Return	$427,495	$318,046

This is an example of the benefits of compound interest – it's also an example of the benefits of starting early!

Member A begins investing at age 30 and invests $5,000 a year for 15 years until she's 45. She then stops investing, but the funds she's already invested stay invested until she retires at 65.

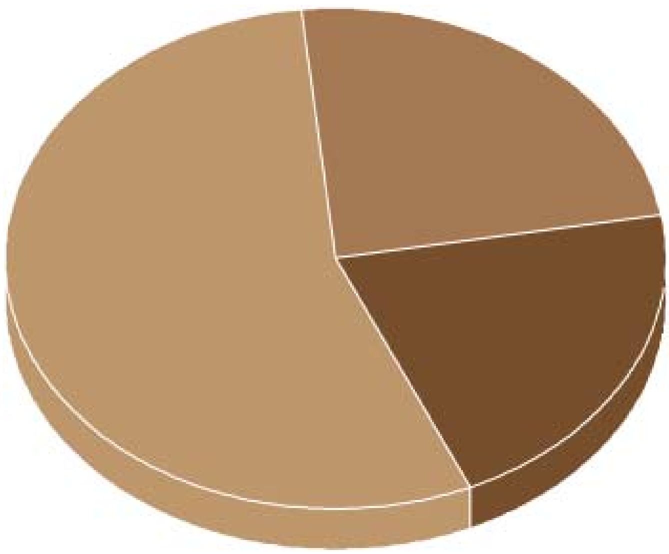
Member B doesn't begin investing until age 45. To try and make up for lost time he invests $7,500 a year for 20 years until he retires, also at 65.

Member B invests twice as much as Member A, $150,000 vs. $75,000, but still ends up with less money at age 65 than Member A because Member A's investments were compounding so much longer.

Member A retires with $109,449 more than Member B!

Possible Retirement Income Sources

Each of us must decide the amount of income we'll need to support the lifestyle we want for retirement. If you think of your retirement income as a pie, then each piece of the pie will represent a different income source in retirement, all of which will add together to make up your total retirement income. You need to determine what percentage of your pie will be provided by your CalPERS retirement benefit, your Social Security benefit for those who qualify; tax-deferred retirement savings plans, and any other savings and investments that you may have. Everyone's retirement pie will be different based on the number of pieces and the size of each piece.



What will be *your* retirement income sources?